

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Portage Lake District Library	County Houghton
Fiscal Year End June 30, 2006	Opinion Date December 1, 2006	Date Audit Report Submitted to State February 15, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☐ ☒ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) BRUCE A. RUKKILA, CPA		Telephone Number (906) 482-6601		
Street Address 310 SHELLEN AVENUE		City HOUGHTON	State MI	Zip 49931
Authorizing CPA Signature <i>Bruce A Rukkila</i>		Printed Name BRUCE A. RUKKILA, CPA		License Number 263812

PORTAGE LAKE DISTRICT LIBRARY
FINANCIAL STATEMENTS
WITH SUPPLEMENTAL FINANCIAL INFORMATION

June 30, 2006 and 2005

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Bruce A Rukkila, CPA, PC



310 Sheldon Avenue • Houghton MI 49931
(906) 482-6601 • Fax: (906) 482-9046
e-mail: help@brucerukkila.com
www.bruцерukkila.com

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Portage Lake District Library
Houghton, Michigan

We have audited the accompanying financial statements of Portage Lake District Library (the "Library") as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Library's board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 1, 2006 on our consideration of the Library's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts, grants, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The Library has not presented a Management's Discussion and Analysis.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principals generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the Library's governmental activities are capital assets activity, long term debt activity, accrued vacation and sick, and accrued interest.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Portage Lake District Library.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

December 1, 2006

PORTAGE LAKE DISTRICT LIBRARY
BALANCE SHEETS - GOVERNMENTAL FUND
GENERAL FUND
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets:		
Cash	\$ 342,580	\$ 289,024
Receivables:		
Grants	-	1,038
County penal fines	19,561	18,076
Taxes	29,467	29,671
Other	4,380	5,256
Pledges receivable	47,267	-
Prepaid expenses	6,627	-
Investments	-	4,354
Total assets	<u>\$ 449,882</u>	<u>\$ 347,419</u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$ 94,110	\$ 11,457
Accrued expenses	11,881	8,779
Deferred revenue	54,550	8,492
Total liabilities	<u>160,541</u>	<u>28,728</u>
Fund Balance:		
Restricted fund balance	4,211	3,791
Unrestricted fund balance	285,130	314,900
Total fund balance	<u>289,341</u>	<u>318,691</u>
Total liabilities and fund balance	<u>\$ 449,882</u>	<u>\$ 347,419</u>

The accompanying notes to the financial statements are an integral part of this statement.

PORTAGE LAKE DISTRICT LIBRARY
GOVERNMENTAL FUND
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
For the Years Ended June 30, 2006 and 2005

Revenues:	2006	2005
State Revenue:		
State aid	\$ 8,726	\$ 10,524
Local Revenue:		
Property taxes	369,752	303,926
Other tax	4,287	3,577
Penal fines	19,561	18,076
Non-resident fees	11,230	9,561
Overdue fines	5,878	4,986
Grant revenue	0	3,456
Photocopier and fax fees	1,643	1,367
Lost/damaged materials	950	1,571
Book sales	884	747
Interest income	4,376	3,724
General donations	94	144
Dedicated contributions	149,476	2,428
Miscellaneous	883	547
Total local revenues	569,014	354,110
Total revenue	577,740	364,634
Expenditures:		
Personnel	258,641	252,226
Travel and training	1,380	4,406
Administration	31,273	25,875
Materials and processing	29,738	28,724
Information technologies	15,315	14,716
Building expenditures	53,226	15,519
State aid for co-op	4,363	5,253
Dedicated contributions projects	0	1,370
Election expense	0	6,785
Building project	312,173	125
Miscellaneous	981	469
Total expenditures	707,090	355,468
Excess (deficiency) of revenue over expenditures	(129,350)	9,166
Other Financing Sources:		
Loan proceeds	100,000	0
Net change in fund balance	(29,350)	9,166
Fund Balance, Beginning of Year	318,691	309,525
Fund Balance, End of Year	\$ 289,341	\$ 318,691

The accompanying notes to the financial statements are an integral part of this statement.

PORTAGE LAKE DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006

The Portage Lake District Library (the "Library") was established in 1974 pursuant to development of a plan by the City of Houghton and the Township of Portage and Public Act No. 164 of 1955, as amended by Public Act No. 32 of 1970. The District also currently includes Chassell Township.

The Library Board of Trustees consists of eight (8) members with three appointed by the Houghton City Council, three appointed by the Portage Township Board, and two appointed by the Chassell Township Board. The Library Board of Trustees are given powers to maintain and operate a public library for the district. Library operations are financed substantially through property taxes levied by the City and Townships. The Library also provides services to Duncan Township through an agreement where the Library receives penal fines allocated to the Township by Houghton County.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

As required by generally accepted accounting principles, the financial statements of the reporting entity include all activities of the Portage Lake District Library. The Library receives funding from local and state government sources and must comply with all the requirements of these funding source entities. However, the Library is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United State of America. The Library's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Number 14 and the Statement on Michigan Governmental Accounting and Auditing No. 5.

Also, using the same criteria above, the Library's financial statements include the account of all Library operations.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Library. The Library has not adopted Governmental Accounting Standards Board Statement Number 34 in it's entirety with the omission of recording capital asset and long-term debt activity on an accrual basis of accounting. Therefore, only the governmental financial statements for the General Fund is presented. The Library has no business-type activities.

The Library first utilizes restricted resources to finance qualifying activities.

The Library does not allocate indirect costs.

Governmental Fund - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

The Library has one governmental fund, the General Fund is the general operating fund and accordingly, it is used to account for all financial resources.

PORTAGE LAKE DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

Modified Accrual Method

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, this includes debt service expenditures, as well as expenditures related to compensated absences.

Property taxes, state aid and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

Other Accounting Policies

Cash and cash equivalents

Cash and equivalents include amounts in demand deposits and certificates of deposit.

The Library reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and No. 40, Deposits and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standard also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Library intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statues authorizes the Library to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Library is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, banker's acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Property Taxes

The Library receives property tax revenues levied by the City of Houghton, Portage Township, and Chassell Township as its major source of revenue to finance operations. Each of the municipalities levy taxes on December 1 and the majority of payments are received in December through February of each year. Property tax revenues are recognized on the records of the Library when levied to the extent that they result in current receivables.

PORTAGE LAKE DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Payables

All receivables are reported at their gross amount.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Encumbrances

Encumbrances are defined as commitments related to unperformed contracts for goods and services. The Library does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

Reclassification

Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Library's annual budget is prepared in June of each year by the finance committee, consisting of the Treasurer and three trustees, with assistance from the library director. The District Library Board reviews and adopts the annual budget prior to the beginning of the new fiscal year.

The Library Board adopts the budget on a line item basis and has the authority to amend the budget when it becomes apparent that deviations in the original budget will occur and the amount of the deviation can be determined.

In accordance with the State of Michigan Budgeting and Accounting Act, the Library must adopt an annual operating budget for the General Fund.

Expenditures in excess of budgeted amounts at the legal level of control are disclosed in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.

NOTE C - CASH AND INVESTMENTS

Concentration of Credit Risk - The Library will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk - Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. As of June 30, 2006, \$30,305 of the Library's bank balance of \$330,305 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Library's name.

Custodial Credit Risk - Investments - For an investment, this is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

PORTAGE LAKE DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006

NOTE C - CASH AND INVESTMENTS (Continued)

The Library will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Library will do business.

At year-end, the Library's cash deposits (checking and savings) were reported in the basic financial statements as Cash in the amount of \$342,580.

NOTE D - ACCUMULATED UNPAID VACATION AND SICK/PERSONAL LEAVE

Employees accumulate sick leave based on their actual hours worked times a pre-determined multiplier, to a maximum of 240 hours. Upon the death or retirement of any employee, accumulated sick/personal leave days shall be paid to the employee (or, in the event of death, to the employee's estate) according to the following schedule:

- after three years of employment, $\frac{1}{4}$ of accumulated sick/personal leave
- after five years of employment, $\frac{1}{2}$ of accumulated sick/personal leave
- after eight years of employment, $\frac{3}{4}$ of accumulated sick/personal leave
- after ten years of employment, all of accumulated sick/personal leave

Vacation pay is accumulated based on the actual hours worked times a pre-determined multiplier and cannot exceed two times the employee's annual entitlement.

Accumulated vacation and sick leave vested at June 30, 2006 and 2005, was \$7,394 and \$7,741, respectfully.

NOTE E - INSTALLMENT LOAN

On June 30, 2006, the Library obtained a three year installment loan from Wells Fargo Bank in the amount of \$100,000 with an interest rate of 5.45%, payable monthly. The loan, which is collateralized by the Library's savings accounts, will provide funds for the purchase of furniture and equipment.

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006-2007	\$ 5,588	\$ 33,333	\$ 38,921
2007-2008	3,725	33,333	37,058
2008-2009	1,863	33,334	35,197
TOTAL	<u>\$ 11,176</u>	<u>\$ 100,000</u>	<u>\$ 111,176</u>

NOTE F - LEASE AGREEMENT

Portage Lake District Library entered into a lease and management agreement with the City of Houghton for a period of thirty years. The Library shall operate, maintain and keep in repair the building. As rent, the Library shall pay the City such amount that the Library receives as property tax revenue (up to 2 mills) that would have been captured from the properties located within the City of Houghton's M-26 and Sharon Avenue Corridor Tax Increment Finance Authority (TIFA), excluding any non-captured tax revenue normally received by the Library under the existing TIFA procedures.

The amount paid to the City of Houghton for the fiscal year June 30, 2006 was \$36,183.

PORTAGE LAKE DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006

NOTE G - RESTRICTED FUND BALANCE

Restricted fund balance represents the amount of the excess of dedicated contributions received over dedicated contributions spent. Activity regarding the restricted fund balance for the year ended June 30, 2006 is as follows:

Beginning fund balance at June 30, 2005	\$ 3,791
Plus: Dedicated contributions	420
Subtotal	<u>4,211</u>
Less: Dedicated contributions projects	0
Ending fund balance at June 30, 2006	<u><u>\$ 4,211</u></u>

NOTE H - DESIGNATED FUND BALANCE

The board has designated a portion of the General Fund balance for various future projects and contingencies. Activity regarding fund balance for the year ended June 30, 2006 is as follows:

<u>Purpose</u>	<u>Beginning Balance July 1, 2006</u>	<u>New Designations</u>	<u>Designations Expended</u>	<u>Ending Balance June 30, 2006</u>
Automated System	\$ 1,347	\$ 0	\$ 1,347	\$ 0
Technology Fund	8,915	0	8,915	0
Building Project/Renovation	<u>20,680</u>	<u>0</u>	<u>20,680</u>	<u>0</u>
	<u><u>\$ 30,942</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 30,942</u></u>	<u><u>\$ 0</u></u>

NOTE I - RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destructions of assets; errors and omissions; injuries to employees; and natural disasters. The Library continues to carry commercial insurance for property, liability, wrongful acts, and other risks of loss including worker's compensation and accident insurance.

REQUIRED SUPPLEMENTAL INFORMATION

PORTAGE LAKE DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND
BUDGET AND ACTUAL
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>(GAAP Basis)</u>	<u>Final to Actual</u>
REVENUES:				
State Revenue:				
State Aid	\$ 9,450	\$ 8,692	\$ 8,726	\$ 34
Local Revenue:				
Property taxes	336,125	348,000	374,039	26,039
Penal fines	20,000	20,000	19,561	(439)
Non-resident fees	9,000	10,000	11,230	1,230
Overdue fines	4,500	4,500	5,878	1,378
Grant revenue	1,000	1,000	0	(1,000)
Photocopier and fax fees	1,200	1,600	1,643	43
Lost/damaged materials	1,300	1,300	950	(350)
Book sales	400	400	884	484
Interest income	2,500	3,700	4,376	676
General contributions	100	100	94	(6)
Dedicated contributions	50,800	175,400	149,476	(25,924)
Miscellaneous	350	500	883	383
Total local revenue	427,275	566,500	569,014	2,514
Total revenues	436,725	575,192	577,740	2,548
Expenditures:				
Personnel	242,038	282,258	258,641	23,617
Travel and training	4,000	2,000	1,380	620
Administration	35,510	36,360	31,273	5,087
Materials and processing	31,550	30,550	29,738	812
Information technologies	16,900	17,000	15,315	1,685
Building expenditures	18,650	31,250	53,226	(21,976)
State aid for co-op	4,725	4,725	4,363	362
Building project	341,000	341,000	312,173	28,827
Miscellaneous	400	1,000	981	19
Total expenditures	694,773	746,143	707,090	39,053
Excess (deficiency) of revenue over expenditures	(258,048)	(170,951)	(129,350)	(36,505)
Other Financing Sources				
Loan proceeds	0	100,000	100,000	0
Net change in fund balance	\$ (258,048)	\$ (70,951)	(29,350)	\$ (36,505)
Fund balance, Beginning of Year			318,691	
Fund balance, End of Year			\$ 289,341	

SUPPLEMENTAL INFORMATION

PORTAGE LAKE DISTRICT LIBRARY
DETAIL STATEMENTS OF EXPENDITURES
For the years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Personnel		
Salaries & wages	\$ 195,035	\$ 195,329
Employer FICA expense	14,908	14,887
Medical insurance	47,488	40,630
Workers Compensation	1,210	1,380
Total personnel	<u>258,641</u>	<u>252,226</u>
Travel, Training, and Education		
Staff training and education	1,380	4,406
Total travel, training, and education	<u>1,380</u>	<u>4,406</u>
Admininstration		
General	2,148	1,910
Supplies	2,464	3,303
Equipment	1,181	525
Insurance	5,471	5,148
Accounting	3,968	3,945
Legal	1,800	0
Postage/shipping	5,469	4,351
Computer software - office	170	560
Telephone	5,556	4,196
Library promotion	2,850	960
Children's programs	196	977
Total administration	<u>31,273</u>	<u>25,875</u>
Materials and Processing		
Materials supplies	29,205	27,014
Information computer software	533	1,710
Total materials and processing	<u>29,738</u>	<u>28,724</u>
Information Technologies		
Computer equipment	3,302	2,731
Technology support	2,783	3,881
Computer supplies	1,103	819
Miscellaneous computer software	70	300
Automated system maintenance	8,057	6,985
Total information technologies	<u>15,315</u>	<u>14,716</u>

PORTAGE LAKE DISTRICT LIBRARY
DETAIL STATEMENTS OF EXPENDITURES - (CONTINUED)
For the years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Building Expenditures		
Building maintenance	1,017	4,671
Building lease	36,183	0
Building repair	720	509
Maintenance and repair supplies	1,765	1,520
Utilities	13,135	7,980
Furnishings	406	839
Special building project	307,652	0
Total building	<u>360,878</u>	<u>15,519</u>
Miscellaneous Expenditures		
State Aid for Co-op	4,363	5,253
Dedicated contribution project	0	1,370
Building Project	4,521	125
Election expense	0	6,785
Miscellaneous	981	469
Total miscellaneous	<u>9,865</u>	<u>14,002</u>
Total expenditures	<u>\$ 707,090</u>	<u>\$ 355,468</u>



Bruce A Rukkila, CPA, PC



310 Sheldon Avenue • Houghton MI 49931
(906) 482-6601 • Fax: (906) 482-9046
e-mail: help@brucerukkila.com
www.bruцерukkila.com

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Portage Lake District Library
Houghton, Michigan

We have audited the general purpose financial statements of the Portage Lake District Library (the "Library") as of and for the year ended June 30, 2006, which collectively comprise the Library's basic financial statements, and have issued our reported thereon dated December 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Library in a separate letter dated December 1, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board, management, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

December 1, 2006



Bruce A Rukkila, CPA, PC



310 Sheldon Avenue • Houghton MI 49931
(906) 482-6601 • Fax: (906) 482-9046
e-mail: help@brucerukkila.com
www.bruceukkila.com

COMMENTS AND RECOMMENDATIONS LETTER

Board of Trustees
Portage Lake District Library
Houghton, Michigan

We have audited the financial statements of the Portage Lake District Library as of and for the year ended June 30, 2006 and have issued our report thereon dated December 1, 2006. As part of our audit, we made a study of the internal control structure to the extent we considered necessary and as required by auditing standards generally accepted in the United States of America.

Whereas our study and evaluation disclosed no conditions that we believed to be material weaknesses, certain items did come to our attention where we feel improvements could be made. The comments and recommendations below are submitted for your consideration:

GASB 34

We recommend the Library adopt the major changes from Governmental Accounting Standards Board Statement Number 34 (GASB 34) to comply with Generally Accepted Accounting Principles. This requires the Library to issue government-wide financial statements based on full accrual accounting and preparation of management discussion and analysis. This change will also require the Library to place a value on all capital assets, calculate depreciation, record offsetting long-term debt, and report information regarding the net value of assets on the government-wide financial statements. In addition to adopting GASB 34 the Library needs to create a fixed asset policy. The policy should include the amount at which an asset would be capitalized/depreciated rather than expended.

Pledges and Contributions

It was noted during the course of our audit that the documentation for the pledges and contributions received did not indicate when the pledge was received. We recommend that the pledge dates be documented and a periodic reconciliation be performed that would include reviewing of pledges outstanding and verification of receipts recorded in your accounting program.

Donated securities documentation should include the date received and the value at time of donation. Securities donations are recorded at the same value in the accounting system. Fees associated with any donated securities are recorded as expenditures.

Public Act 621 - Budget Over Expenditures

Public Act 621 of 1978, as amended, prohibits expenditures in excess of budgeted appropriations. An instance of violation of these provisions are readily ascertainable from the financial statements and the accompanying information.

Expenditures

In order to keep the Library's management informed regarding State of Michigan regulations, we present below a list of examples of illegal or unauthorized expenditures as defined in the Bulletin for Audits of Local Units of Government in Michigan as revised (Appendix H). We recommend that the Library's management familiarize themselves with this list in order to prevent the potential for illegal or unauthorized expenditures of the Library's funds.

- Contributions to churches, veterans, nonprofit organizations.
- Payment of funeral expense for a person injured on government property
- Donations to a private ambulance or EMS service not under contract with the governmental unit.
- Donations, including use of property or equipment to Little League, Scouts, Big Brothers/Sisters.
- Donations to community organizations.
- Expenses for private road constructions or maintenance.
- Office refreshments, picnics.
- Presents to officials and employees or retirement recognitions events.
- Flowers to the sick or departed.
- Mileage of officials and employees to and from their residents to the Library.
- Extra compensation unless for part of the initial salary resolution or authorized with under statutory procedures for an increase in salary.

In addition the Library should enforce a travel reimbursement policy that would exclude unnecessary amenities that are charged through hotel invoices and set limits on the amount allowable to be reimbursed for meals.

We would like to thank the administration and staff for the excellent cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

Bruce A. Rukkila, CPA, PC
Certified Public Accountants

December 1, 2006